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Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1951

A A & Co.

Stores Owned by

MERCANTILE STORES COMPANY, INC.

Principal Stores

J. Bacon & Sons	Louisville, Ky.
The Castner-Knott Dry Goods Co.	Nashville, Tenn.
Duluth Glass Block Store Company	Duluth, Minn.
The Fair Store Company	Cincinnati, Ohio
C. J. Gayfer & Company, Incorporated	Mobile, Ala.
Hennessy Company	Butte, Mont.
The Jones Store Co.	Kansas City, Mo.
The Jones Store Co. (Troost Ave.)	Kansas City, Mo.
The Joslin Dry Goods Company	Denver, Colo.
The Lazarus Store, Inc.	Wilkes-Barre, Pa.
The Lion Dry Goods Company	Toledo, Ohio
The MacDougall & Southwick Company	Seattle, Wash.
The McAlpin Company	Cincinnati, Ohio
Montgomery Fair Co.	Montgomery, Ala.
The People's Store Company	Tacoma, Wash.
Root Dry Goods Company	Terre Haute, Ind.
Thomas C. Watkins, Limited	Hamilton, Ont., Can.
J. B. White & Co.	Augusta, Ga.
J. B. White & Co.	Columbia, S. C.
J. B. White & Co.	Greenville, S. C.

Other Stores

30 Junior Department Stores

43 Appliance Stores

●

Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)

(A wholly owned subsidiary company)

128 W. 31st Street, New York, N. Y.

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
LINDSAY BRADFORD
F. K. BRADLEY
MORGAN A. CASEY
ABBOTT D. CHURBUCK
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
GERRISH H. MILLIKEN, JR.
MINOT K. MILLIKEN
ROGER MILLIKEN
ROBERT B. WHITNEY

OFFICERS

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HAROLD W. JOCKERS, *President*
F. K. BRADLEY, *Vice-President*
ABBOTT D. CHURBUCK, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
MORGAN A. CASEY, *Treasurer*
ASHTON HAWKINS, *Secretary*
E. F. FLANIGAN, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
New York

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,

Wilmington, Delaware,

April 14, 1951

To the Stockholders of
Mercantile Stores Company, Inc.:

This is the annual report of your Company for the fiscal year ended January 31, 1951, including the financial statements and the report from your Company's independent auditors.

PROFIT

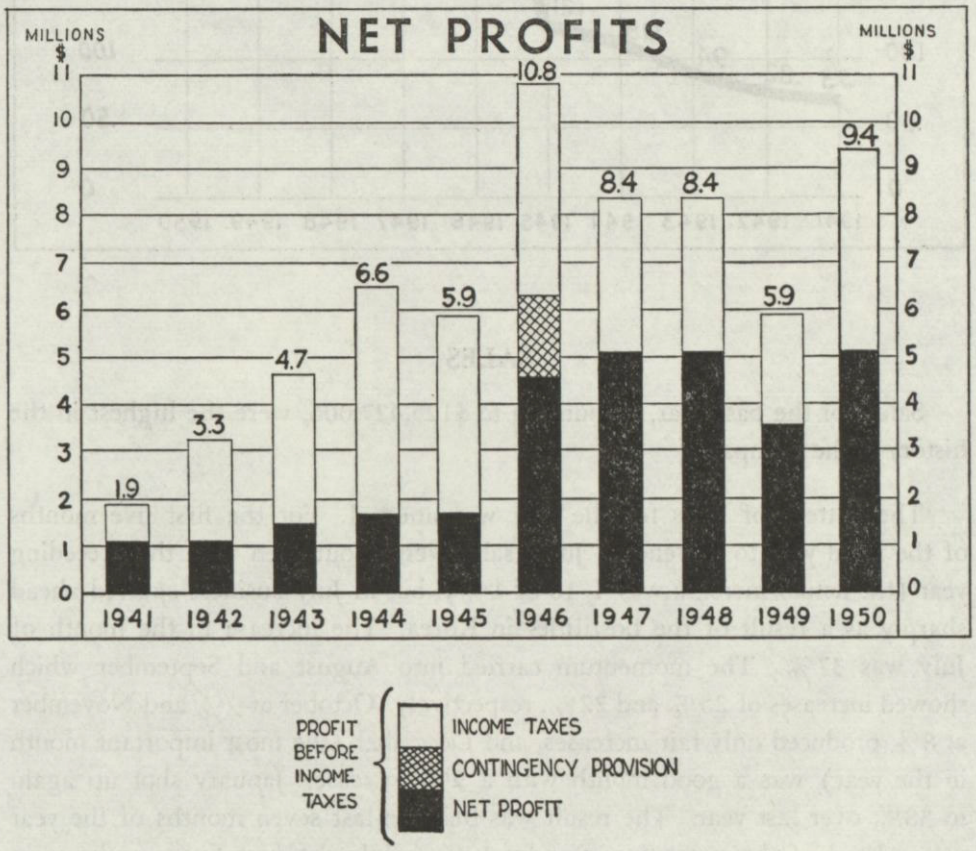
Net profit for the year was $5,107,003 compared with $3,607,129 for the previous year. The profit per share of common stock was equal to $3.45 compared with $2.42 for the previous year. Sales for the year aggregated $125,427,006 which was 11.4% greater than the preceding year's sales of $112,607,776.

Profit before provision for income taxes amounted to $9,397,003 for the current year compared with $5,932,129 for the preceding year. The profit before taxes for the current year was the second highest in the history of the Company. The fiscal year ended January 31, 1947 which produced a profit before tax of $10,800,760, was the only year to surpass the current year in profit before tax.

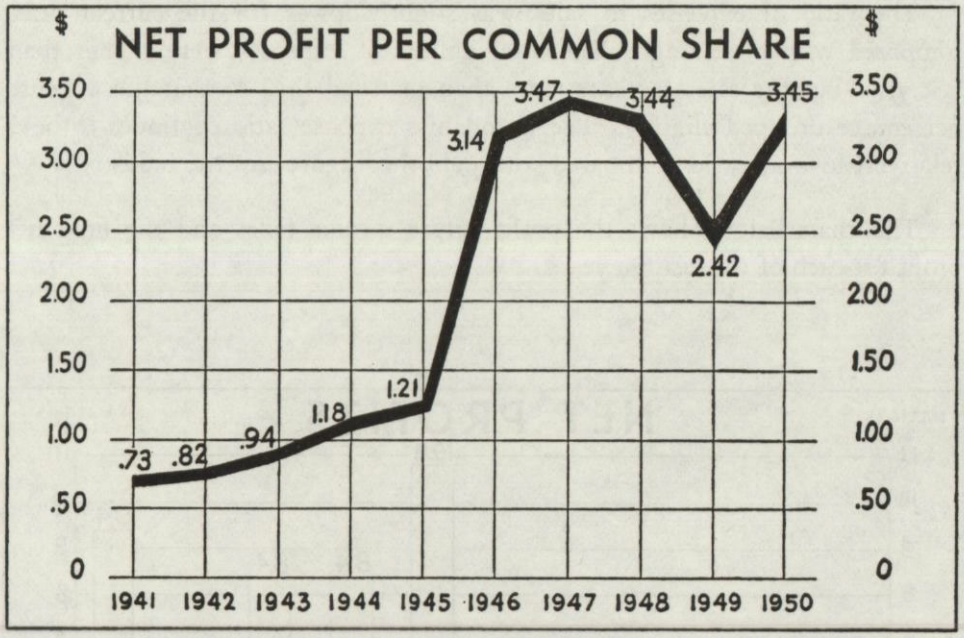
A much better result in markdowns (reductions of prices on goods offered for sale) was an important factor in the profit improvement. During the preceding year, there was a decline in price levels which necessitated taking rather large markdowns, but during the current year prices were rising which reduced the necessity for markdowns. The dollar total of markdowns for the year just closed was substantially lower than a year ago.

The ratio of expenses to sales was slightly lower for the current year, compared with a year ago. The total dollars of expenses were higher than last year, but the sales increase more than matched this, so that the expense percentage dropped slightly. The Company's expense ratio continues to be a relatively low one when compared with published figures for the industry.

The chart below shows the profit before income taxes and the final net profit for each of the last ten years.



The net profit per share of common stock, for each of the last ten years, is shown in the chart on the following page. The per share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945. For the last five years the average per share profit has been $3.18 and for the last ten years the average has been $2.08.

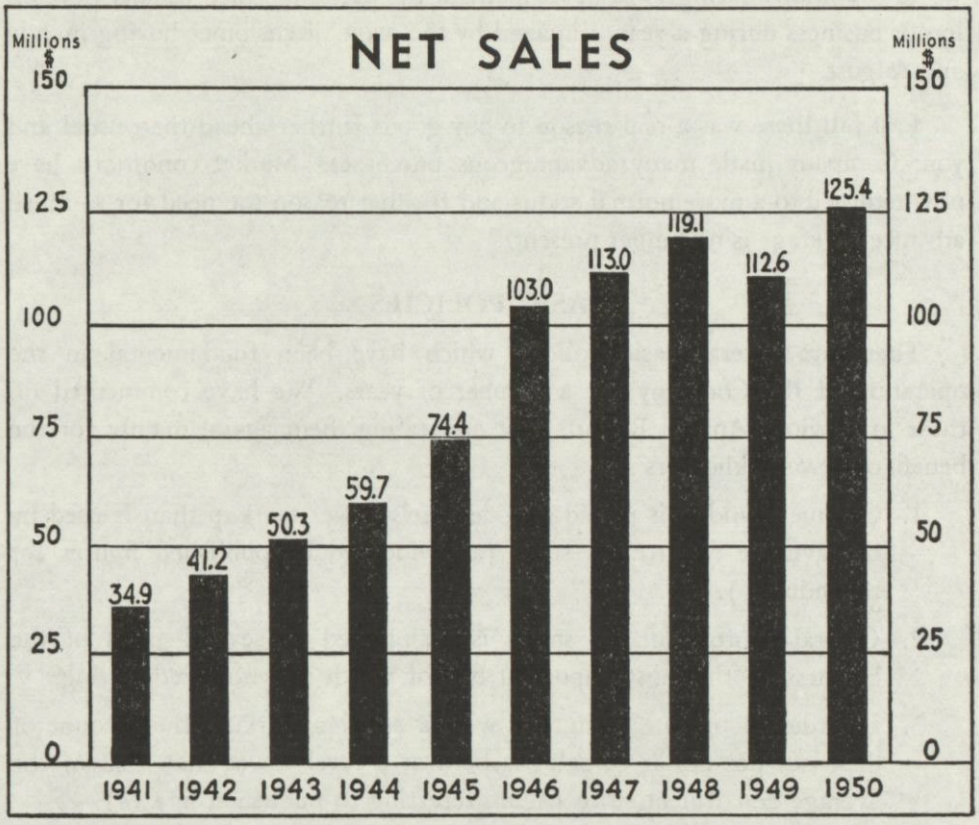


SALES

Sales for the past year, amounting to $125,427,006, were the highest in the history of the Company.

The pattern of sales for the year was unusual. For the first five months of the fiscal year to the end of June, sales were about even with the preceding year (the actual increase was 4/10 of 1%), but in July business spurted ahead sharply as a result of the hostilities in Korea. The increase in the month of July was 37%. The momentum carried into August and September which showed increases of 25% and 22%, respectively. October at 9% and November at 8% produced only fair increases, and December (the most important month in the year) was a good month with a 9% increase. January shot up again to 38% over last year. The result was that the last seven months of the year were ahead of the preceding year by 19%, while the first five months were about even. The net effect of this for the year as a whole was an increase of 11.4%.

The Company has more than doubled its volume during the last six years, and volume is now over 3½ times larger than it was ten years ago. The chart at the top of the next page shows in comparative form the amount of sales for each year during the past ten years.



DIVIDENDS

The Company again paid $1.00 per share in dividends on the common stock during the year ended January 31, 1951 consisting of four quarterly payments of 25 cents per share. The dividends on the common stock amounted to $1,471,295 for the year. There were approximately 2,800 common stockholders in our Company at the end of the current year compared with approximately 2,400 a year ago. The regular preferred stock dividends were paid during the year which amounted in total to $19,240. The Company called for redemption 400 shares of the preferred stock during 1950 and has added these shares to the stock held in the treasury.

INVENTORY

Inventories of merchandise amounted to $28,500,036 at January 31, 1951 compared with $19,284,683 a year ago, an increase of $9,215,353. The unsettled world conditions during 1950 upset many of the patterns which usually develop in our business during a year, climaxed by the wave of customer buying in July and August.

Last fall there was a real reason to buy goods further ahead than usual and your Company made many advantageous purchases. Market conditions have now returned to a more normal status and for that reason the need for so much advance coverage is no longer present.

BASIC POLICIES

There are several basic policies which have been fundamental in the operation of the Company for a number of years. We have commented on these in previous Annual Reports, but are stating them again, mainly for the benefit of new stockholders.

1. Our merchandise is priced at a definitely lower markup than is used by the average department store (as evidenced by published figures for the industry).
2. Central control for all stores is maintained in several parts of the business — the most important one of which is centralized buying.
3. In order to operate profitably with a smaller markup, the amount of expenses per dollar of sales is held at a level lower than that of the average department store (again referring to published figures).
4. People are promoted from within the organization — rather than going outside of the Company to fill important positions when the occasion arises.

EXPANSION DURING THE CURRENT YEAR

One major department store and one junior department store were added to the group during the current year.

The Company purchased all of the capital stock of C. J. Gayfer & Company, Incorporated of Mobile, Alabama, on March 16, 1950. Gayfer's is one of the leading department stores in Mobile and has operated there for a long period of years. It has a valuable old name and has built up real acceptance in its community over the years. The sales and profits of Gayfer's since acquisition in March, 1950, have been included in our consolidated figures. The results to date have been satisfactory.

The Company has purchased the real estate in which the F. W. Woolworth Company store in Mobile was operated up to a few months ago. This property is adjacent to Gayfer's and building operations are now under way to tie the two properties together into one store, which will more than double the present space of the Gayfer's store. This addition will be completed around the end of this year.

A junior store was opened in November, 1950 in Fremont, Ohio. The operation so far has been up to expectations.

There were a few changes during the year in the smaller appliance stores, the net result of which was that at the end of the year there were 43 such stores in operation, compared with 46, a year ago.

At January 31, 1951 your Company was operating 20 major department stores, 30 junior department stores and 43 smaller stores selling household appliances.

A junior department store in Independence, Missouri will be opened the latter part of this year. The Company is erecting a new building on land held under a long term lease.

ADDITIONS AND IMPROVEMENTS TO PHYSICAL PROPERTIES

During the current year the Company invested a total of $2,554,076 for additional real estate, improvements to buildings and fixtures.

The cost of additional real estate was $960,455 consisting of the Gayfer store property in Mobile, a warehouse in Louisville, Kentucky and a warehouse in Tacoma, Washington. A total of $252,477 was spent for building improvements, fixtures and cash registers for the new junior store in Fremont, Ohio, and $153,538 had been spent through January 31st on the new building being erected for the new junior store in Independence, Missouri.

Apart from the additional real estate and new store expenditures outlined in the paragraph above, a total of $1,187,606 was spent for building improvements and fixtures in stores already operating. This was less than the depreciation charged against operations for the year, which amounted to $1,358,862. The largest expenditure for properties already held, was $236,198 for modernization of our MacDougall store in Seattle, Washington. In this instance the landlord also spent substantial amounts in modernizing the exterior of the

building. Other expenditures of lesser amounts included those for the new ready-to-wear floor in Joslin's of Denver, Colorado, and the new escalator in the Root store in Terre Haute, Indiana.

Entirely apart from the expenditures outlined above, the Company also spent $580,308 for repairs and maintenance, which was charged against operations.

STOCK OFFERED AS PART OF PROFIT SHARING PAYMENTS

For the past ten years the Company has maintained a Profit Sharing Plan which, in the opinion of the management, has been one of the important factors in the improvement of our business over the years. For the current year, payments under this plan are to be made to 1289 people totalling $2,385,117. This year the opportunity was given to each individual to take 19% of his Profit Sharing compensation in common stock of the Company. Each individual was perfectly free to take cash instead of stock, if he chose to.

The management believes it is good for the Company and the individual to have a number of our people be stockholders in the Company which employs them. With this objective, the Company purchased 25,300 shares of common stock in the open market during several months of 1950 at the average price of $16.79 per share. That stock was offered to each individual at $16.79 per share, in lieu of cash, for any amount up to 19% of his Profit Sharing compensation. In making this offer to our people, it was strongly emphasized that each person was completely free to take cash instead of stock. No individual was permitted to take more than 19% in stock.

The response to this offer was that 639 people elected to take 19,579 shares of stock. There remained 5,721 shares of the 25,300 shares purchased, and these 5,721 shares have been added to the stock in the Company's treasury, at par value. The cost of these shares was $16.79 per share and the par value is $3.66⅔ per share. The excess of the cost over the par value, amounting to $75,137, was charged to surplus accumulated prior to February 1, 1935.

PENSION PLAN

The Company's Pension Plan has now been in operation for six years. There were 581 employees included in the Plan at the end of the current year compared with 490 a year ago. The number of employees included in the Plan has been gradually increasing since its inception, as more employees have become

eligible. The Plan is non-contributory (the Company pays all costs). The Company's contribution to the Plan for the year just closed amounted to $244,867 which has been paid over to the Trustee, City Bank Farmers Trust Company. The Company's contribution for the preceding year was $211,783.

The amount held by the Trustee in the Fund at the end of the current year (including the contribution for the current year) was $1,132,766.

BORROWINGS

During the current year the Company borrowed $2,500,000 on short term loans from banks and repaid $500,000 of this before the year end, leaving $2,000,000 outstanding at January 31, 1951.

The long term loans from Metropolitan Life Insurance Company were reduced by payment of $300,000, and two mortgage notes were reduced by payments of $20,000 in total. A mortgage loan of $500,000 was placed against the Gayfer store real estate in Mobile, Alabama.

THE COMING YEAR

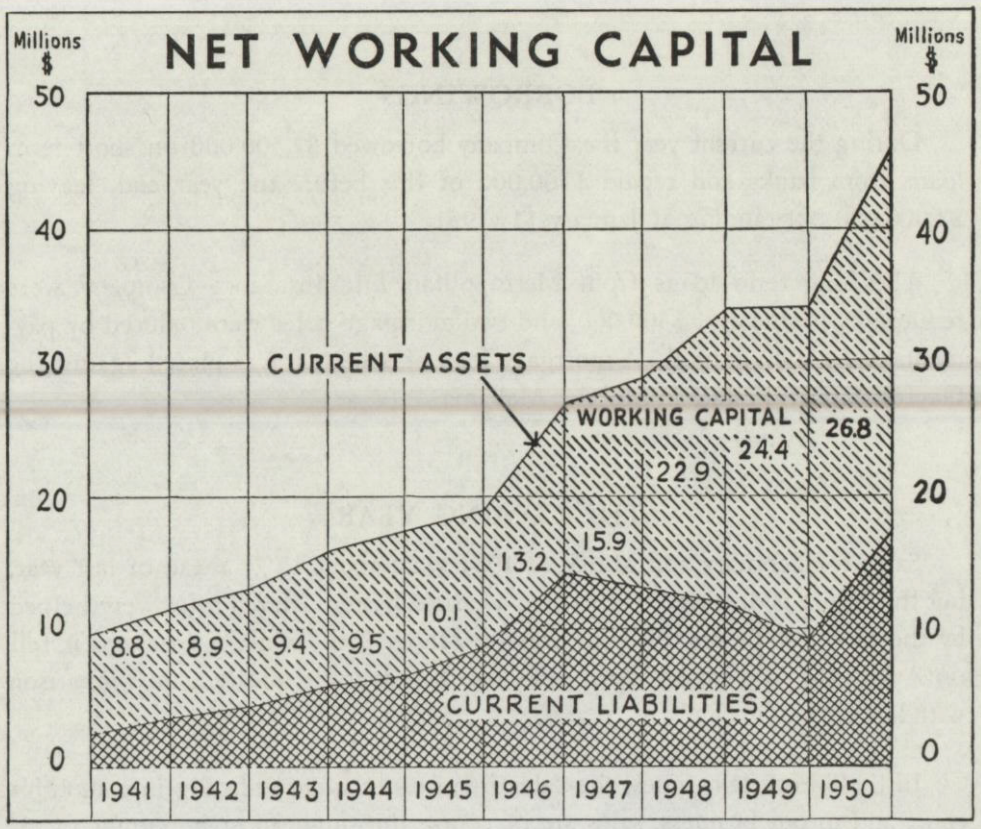
Sales for February and March of 1951 were about 13% ahead of last year, but this figure is distorted by this year's earlier Easter. March sales were helped by the fact that Easter this year was on March 25th, while a year ago it fell on April 9th. We expect April sales will be adversely affected, in comparison with last year.

In these uncertain times, the sales trend can change radically in a month's time, and in our business, sales are of course the single most important factor affecting profit. For this reason we have no sound basis for estimating profit for the coming year.

We have had a number of inquiries as to how our earnings will be affected by the Excess Profits Tax which is now on the Federal statutes. This is a very complex tax law and the computations are not yet complete for each of our more than fifty corporations. Preliminary estimates indicate, however, that we could earn around $2.95 per share before starting to pay excess profits tax. This figure is given only for purposes of information and is not the management's estimate of the coming year profit. Obviously, it could be less than that, or greater than that.

WORKING CAPITAL

The working capital was increased during the current year by $2,472,268. The amount of working capital at the end of the current year was $26,847,942 compared with $24,375,674 a year ago. The working capital at the end of each year for the past ten years is shown in the chart below.



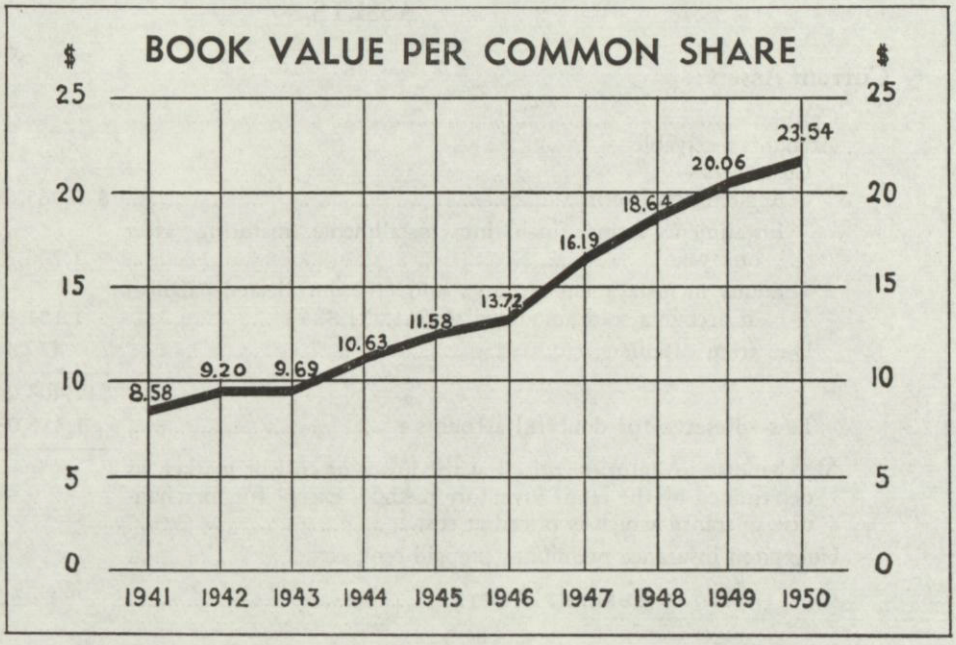
VARIOUS

The earned surplus of the Company was increased during the current year from $18,035,395 to $21,651,863 and the total surplus of the Company at January 31, 1951 amounted to $27,834,360.

Customers' receivables, shown on the balance sheet at January 31, 1951, amounted to $10,923,163 compared with the figure of a year ago of $9,729,920. The Company continued to sell the larger part of its customers' installment contracts to a bank under an arrangement which has been operating for a number of years. The reserve for doubtful accounts was increased from

$1,133,325 a year ago to the figure of $1,315,083 at January 31, 1951. This reserve is adequate, in the opinion of the management, and the receivables are considered to be in a satisfactory condition.

The book value per share of common stock was $23.54 at January 31, 1951. The chart below shows the book value per share of common stock at the end of each year for the past ten years.



The financial statements and the report of our auditors are given on the succeeding pages, and following that is a thirteen year comparison of sales, earnings, and surplus, together with a ten year comparison of balance sheets.

In closing, we would like to pay tribute to all of our people throughout the Company whose loyal cooperation counts so much in the results our Company can achieve. We also want to express our sincere appreciation of the cooperation and assistance we have had from thousands of manufacturers and other vendors who have supplied us with high quality merchandise.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board

HAROLD W. JOCKERS,
President

MERCANTILE STO

(a Delaware

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:

Cash		$ 4,787,324
Accounts receivable—		
Customers—		
Regular retail terms	$ 8,065,682	
Installment terms, including installments maturing after one year	1,706,293	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $11,511,884)	1,151,188	
Due from suppliers, etc.	479,878	
	$11,403,041	
Less—Reserve for doubtful accounts	1,315,083	10,087,958
Merchandise inventories, priced at the lower of cost or market, as determined by the retail inventory method, except for merchandise in transit which is priced at cost		28,500,036
Unexpired insurance premiums, prepaid rent, etc.		989,544
TOTAL CURRENT ASSETS		$44,364,862

Other Assets:

U. S. Government securities deposited in escrow as guarantees of performance under leases, at cost	$ 251,193	
Post-war refund of Canadian excess profits taxes	54,482	
Other	67,137	372,812

Fixed Assets:

Land and buildings owned, buildings on leased ground and leaseholds, and building improvements, at cost, less reserve for depreciation of $4,875,611	$ 9,380,808	
Store fixtures, etc., at cost, less reserve for depreciation of $2,625,328	4,499,573	13,880,381
		$58,618,055

NOTE: Under a loan agreement, dividends on come (less preferred dividends) earned lative basis. At January 31, 1951, earnings

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1951

LIABILITIES

Current Liabilities:			
Notes payable to banks			$ 2,000,000
Accounts payable			7,573,231
Accrued taxes (other than Federal income), salaries, rent, etc., less amount of profit-sharing compensation to be liquidated by transfer of 19,579 shares of reacquired common stock			3,418,154
Reserve for Federal taxes on income			4,200,535
Current maturities of long-term debt			325,000
TOTAL CURRENT LIABILITIES			$17,516,920
Long-Term Debt:			
Notes payable, 3⅜%, due $250,000 annually		$ 4,250,000	
Other notes payable (including mortgage notes payable, $1,130,000)		1,280,000	5,530,000
Deferred Carrying Charges on Installment Accounts			576,612
Capital Stock and Surplus:			
Capital stock—			
Preferred stock, 7% cumulative, $100 par value, callable at $105 per share—			
Authorized and issued, 10,410 shares	$1,041,000		
Less—Held in treasury, 7,910 shares	791,000		
Outstanding, 2,500 shares		$ 250,000	
Common stock, par value $3.66⅔ per share—			
Authorized and issued, 1,582,380 shares	$5,802,060		
Less—Held in treasury (exclusive of 19,579 shares deducted from accrued liabilities), 106,881 shares	391,897		
Outstanding, 1,475,499 shares		5,410,163	
Surplus prior to February 1, 1935		6,182,497	
Surplus reserve for inventories and contingencies		1,500,000	
Earned surplus since February 1, 1935		21,651,863	34,994,523
			$58,618,055

the common stock are limited to 70% of net in-
subsequent to January 31, 1948, on a cumu-
free of this restriction were $5,188,884.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1951

PROFIT AND LOSS

Net sales, including sales of leased departments		$125,427,006
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $1,358,862		116,920,243
Operating profit		$ 8,506,763
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)	$1,345,392	
Less—Interest expense	455,152	890,240
Profit before provision for income taxes		$ 9,397,003
Provision for income taxes:		
Federal taxes (including excess profits taxes of $170,000)	$4,008,000	
State and Canadian taxes	282,000	4,290,000
Net profit for the year		$ 5,107,003

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1950	$ 6,257,634
Deduct—Excess of cost of 5,721 shares of treasury stock acquired during the year over the par value thereof	75,137
Balance, January 31, 1951	$ 6,182,497

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1950		$ 18,035,395
Net profit for the year		5,107,003
		$ 23,142,398
Dividends declared:		
Preferred stock—$7.00 per share	$ 19,240	
Common stock—$1.00 per share	1,471,295	1,490,535
Balance, January 31, 1951		$ 21,651,863

AUDITORS' REPORT

To the Board of Directors and Stockholders,
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1951, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1951, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
April 4, 1951.

MERCANTILE STO
AND SUBSIDIARY

THIRTEEN YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit
1951	$125,427,006	$ 9,397,003	$4,290,000	$5,107,003
1950	112,607,776	5,932,129	2,325,000	3,607,129
1949	119,091,512	8,369,725	3,243,000	5,126,725
1948	113,012,702	8,444,538	3,286,000	5,158,538
1947	103,007,184	10,800,760	4,618,000	4,682,760**
1946	74,407,149	5,894,901	4,084,000	1,810,901
1945	59,668,304	6,633,941	4,854,000	1,779,941
1944	50,277,807	4,700,875	3,276,760	1,424,115
1943	41,173,113	3,340,264	2,118,645	1,221,619
1942	34,867,853	1,912,941	812,165	1,100,776
1941	29,509,394	939,991	278,548	661,443
1940	27,619,565	274,646	72,059	202,587
1939	25,467,539	*486,264**	3,850	*490,114**

* Italics indicate loss or deficit.

** After deducting special provision of $1,500,000 for possible future decline in market

*** Principally dividends on common stock, annual dividends on preferred stock ranged from

RES COMPANY, INC.
COMPANIES

EARNINGS AND EARNED SURPLUS

Net Profit Per Common Share (After 10 for 1 Splitup in 1945)	Dividends Paid***	Earned Surplus (End of Year)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
$3.45	$1,490,535	$21,651,863	$23.54
2.42	1,503,260	18,035,395	20.06
3.44	1,505,921	15,931,526	18.64
3.47	1,506,896	12,310,722	16.19
3.14	1,506,896	8,659,080	13.72
1.21	395,981	5,483,216	11.58
1.18	398,756	4,068,296	10.63
.94	405,106	2,687,111	9.69
.82	398,388	1,668,102	9.20
.73	330,631	844,871	8.58
.43	331,344	74,726	8.07
.11	42,504	*255,373**	7.85
*.36**	46,907	*415,456**	7.59

value of inventories and other contingencies.

$46,907 in earliest year to $19,240 in latest year.

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

ASSETS	*January 31,* 1951	1950	1949	1948
Cash	$ 4,787,324	$ 4,739,075	$ 6,434,661	$ 3,349,732
Receivables, less Reserves	10,087,958	8,977,615	8,534,538	6,264,915
Merchandise Inventories	28,500,036	19,284,683	18,028,742	18,617,899
Prepaid Expenses	989,544	999,560	954,283	468,939
TOTAL CURRENT ASSETS	$44,364,862	$34,000,933	$33,952,224	$28,701,485
Other Assets	372,812	313,109	278,756	329,508
Fixed Assets (Net)	13,880,381	12,685,167	12,345,179	9,948,169
	$58,618,055	$46,999,209	$46,576,159	$38,979,162
LIABILITIES				
Current Liabilities	$17,516,920	$ 9,625,259	$11,054,879	$12,790,334
Long-Term Debt	5,530,000	5,355,000	5,675,000	95,000
Reserves and Deferred Income	576,612	2,004,781	1,895,980	1,727,532
Capital Stock	5,660,163	5,721,140	5,761,140	5,797,940
Surplus and Surplus Reserve	29,334,360	24,293,029	22,189,160	18,568,356
	$58,618,055	$46,999,209	$46,576,159	$38,979,162
Net Working Capital	$26,847,942	$24,375,674	$22,897,345	$15,911,151

RES COMPANY, INC.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,					
1947	*1946*	*1945*	*1944*	*1943*	*1942*
$ 2,668,226	$ 3,058,809	$ 3,542,395	$ 3,652,070	$ 2,551,575	$ 2,764,570
4,629,841	2,973,050	2,559,611	2,369,795	2,781,126	4,319,635
18,632,200	11,116,080	7,817,194	6,956,591	6,623,978	4,340,148
679,625	692,000	409,297	399,839	408,734	531,841
$26,609,892	$17,839,939	$14,328,497	$13,378,295	$12,365,413	$11,956,194
268,621	280,826	624,429	529,752	276,726	119,190
8,944,064	7,361,003	6,298,478	5,944,141	6,125,551	6,098,917
$35,822,577	$25,481,768	$21,251,404	$19,852,188	$18,767,690	$18,174,301
$13,404,957	$ 7,724,450	$ 4,866,107	$ 3,963,093	$ 3,514,212	$ 3,169,427
105,000	115,000	125,000	800,000	1,200,000	1,600,000
1,597,966	103,528	135,439	187,922	247,391	342,799
5,797,940	5,797,940	5,798,928	5,956,428	5,880,351	5,959,570
14,916,714	11,740,850	10,325,930	8,944,745	7,925,736	7,102,505
$35,822,577	$25,481,768	$21,251,404	$19,852,188	$18,767,690	$18,174,301
$13,204,935	$10,115,489	$ 9,462,390	$ 9,415,202	$ 8,851,201	$ 8,786,767